

MULTI-LAKE SEWER AUTHORITY
TOWNSHIPS OF DEXTER, LYNDON, UNADILLA AND
PUTNAM

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2008

MULTI-LAKE SEWER AUTHORITY

WATER & SEWER AUTHORITY BOARD

Deb Ceo	Trustee
Tom Lewis	Trustee
Michael Gross	Trustee
Joe Mahler	Trustee
Maryann Noah	Vice-Chairperson
Pat Kelly	Secretary
Jack West	Chairperson
Vickie Kooyers	Treasurer

WATER AND SEWER AUTHORITY ATTORNEY

Keusch & Flintoft

WATER AND SEWER AUTHORITY AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

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June 3, 2008

Multi-Lake Sewer Authority
12088 N. Territorial Road
Dexter, Michigan 48130

INDEPENDENT AUDITORS' REPORT

Honorable Authority Members:

We have audited the accompanying financial statements of the Multi-Lake Sewer Authority as of and for the year ended March 31, 2008. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Multi-Lakes Sewer Authority, as of March 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 6 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Multi-Lake Sewer Authority's basic financial statements. The supplementary information is presented for purposes of additional analysis is not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT
DISCUSSION AND
ANALYSIS

Management Discussion and Analysis March 31, 2008

Within this section of the Multi-Lake Sewer Authority's financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended March 31, 2008. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's financial statements. The financial statements include all the statements required by the Governmental Accounting Standards Board and the notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-wide Financial Statements

The Authority's annual reports include two Authority-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Revenues and Expenses which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

The Authority's financial reporting includes all the funds of the Authority (primary government) and, additionally, organizations for which the Authority is accountable (component units). Since the Authority's sole purpose is to operate and manage a water and sewer system, only one fund is maintained. Thus, there are no fund financial statements prepared by the Authority.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$18,703,282. This is a \$62,232 decrease from last year's net assets of \$18,765,514.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

	<u>3/31/2008</u>	<u>3/31/2007</u>
Current and other assets	\$ 2,267,561	\$ 1,648,101
Capital assets, net	<u>18,118,132</u>	<u>17,180,809</u>
Total assets	<u>20,385,693</u>	<u>18,828,910</u>
Accounts payable	37,539	55,233
Deposits	8,013	8,163
Long term bond payable	<u>1,636,859</u>	
Total liabilities	<u>1,682,411</u>	<u>63,396</u>
Net assets:		
Invested in capital assets, net of related debt	16,428,273	17,180,809
Unrestricted	<u>2,222,009</u>	<u>1,584,705</u>
Total net assets	<u><u>\$ 18,650,282</u></u>	<u><u>\$ 18,765,514</u></u>

Summary of Changes in Net Assets

	<u>3/31/2008</u>	<u>3/31/2007</u>
Operating revenues	<u>\$ 829,725</u>	<u>\$ 805,542</u>
Operating expenses		
General	229,607	183,512
Sewer	<u>780,082</u>	<u>895,123</u>
Total operating expenses	<u>1,009,689</u>	<u>1,078,635</u>
Operating (loss)	(179,964)	(273,093)
Non-operating revenues (expense), net	<u>115,202</u>	<u>(30,207)</u>
Change in nets assets before capital contributions and special item	(64,762)	(303,300)
Capital contributions	<u>2,530</u>	<u>43,945</u>
Changes in nets assets before special item	(62,232)	(259,355)
Special item - contingent liability	<u>(53,000)</u>	
Change in net assets and special item	(115,232)	(259,355)
Beginning net assets	<u>18,765,514</u>	<u>19,024,869</u>
Ending net assets	<u><u>\$ 18,650,282</u></u>	<u><u>\$ 18,765,514</u></u>

Capital and Debt Administration

As of March 31, 2008, the Authority has an outstanding long-term debt in the form of loans payable. The loan is with Washtenaw County Public Works in the amount of \$1,636,859, for Waste Water Treatment Plant upgrade, Phase III.

The Authority has been approved for low interest funding from the State Revolving Fund for the upgraded wastewater treatment plant improvements. The upgraded treatment plant is part of the Authority's plan to comply with its groundwater discharge permit from the DEQ. Design engineering has been completed, and the Authority construction has begun. The Washtenaw County Board of Public Works has assisted the Authority in obtaining SRF financing, and will facilitate the successful completion of this major project. New treatment will be provided by two oxidation ditches with a final clarifier.

The Authority spent \$1,346,798 with the expansion.

Economic Factors and Next Year's Goals

The Authority's financial outlook continues to remain strong. The population in the service area is expected to remain constant to slowly rising, with several new users expected to be added during the fiscal year. The Authority has a strong cash position.

It is expected that the increase in revenue experienced in the fiscal year March 31, 2008 will continue in future years. An additional system upgrade is underway that will bring additional users into the system.

The Authority faces challenges in the future, as well. Rising energy and fuel costs pose challenges to both the authority and its customers. If such trends continue, these costs may be passed on to customers, who are also enduring higher energy costs.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance-related regulations. If you have further questions about this report or request additional information, please contact the Authority at 12088 North Territorial Road, Dexter, Michigan 48130.

BASIC
FINANCIAL
STATEMENTS

MULTI-LAKE SEWER AUTHORITY
STATEMENT OF NET ASSETS
MARCH 31, 2008

ASSETS

CURRENT ASSETS

Cash - operations	\$ 343,894	
Accounts receivable - sewer	364,815	
Accounts receivable - other	1,510	
Prepaid expense	23,483	
Inventory	3,716	
Interest receivable	<u>1,614</u>	
Total current assets		\$ 739,032

RESTRICTED ASSETS

Cash - county construction in progress	585,527	
Cash - construction	73,478	
Cash - capital replacement	861,511	
Cash - agency	<u>8,013</u>	
Total restricted assets		1,528,529

PROPERTY, PLANT AND EQUIPMENT

Land	123,000	
Leasehold improvement	88,053	
Sewer system	19,414,737	
Equipment	<u>127,408</u>	
	19,753,198	
Less: accumulated depreciation	<u>(3,314,187)</u>	
Net property, plant and equipment		16,439,011

CONSTRUCTION IN PROGRESS

		<u>1,679,121</u>
Total assets		<u><u>\$ 20,385,693</u></u>

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$ 3,530	
Due to member townships	24,570	
Due to others - escrow	8,013	
Payroll liabilities	9,439	
Contingent liability	<u>53,000</u>	
Total current liabilities		\$ 98,552

LONG TERM LIABILITIES

Bond payable		<u>1,636,859</u>
Total liabilities		1,735,411

NET ASSETS

NET ASSETS

Invested in capital assets, net of related debt	16,428,273	
Unreserved - sewer	<u>2,222,009</u>	
Total net assets		<u>18,650,282</u>
Current liabilities and net assets		<u><u>\$ 20,385,693</u></u>

The accompanying notes are an integral part of these financial statements

MULTI-LAKE SEWER AUTHORITY
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED MARCH 31, 2008

OPERATING REVENUES		
Billings	\$ 826,465	
Grinder pump sales	<u>3,260</u>	
Total operating revenues		\$ 829,725
OPERATING AND ADMINISTRATIVE EXPENSES		<u>1,009,689</u>
Operating income (loss)		(179,964)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	69,635	
Member debt transfers	(80,073)	
Miscellaneous income	10,936	
Grant revenue	98,636	
Reimbursement from Washtenaw County	10,338	
Rental income	<u>5,730</u>	
Total non-operating revenues (expense)		<u>115,202</u>
Change in net assets before capital contributions and special item		(64,762)
CAPITAL CONTRIBUTIONS		
Tap-in		<u>2,530</u>
Change in net assets before special item		(62,232)
SPECIAL ITEM		
Contingent liability		<u>(53,000)</u>
Changes in net assets and special item		(115,232)
RETAINED EARNINGS, APRIL 1, 2007		<u>18,765,514</u>
RETAINED EARNINGS, MARCH 31, 2008		<u><u>\$ 18,650,282</u></u>

The accompanying notes are an integral part of these financial statements

MULTI-LAKE SEWER AUTHORITY
STATEMENT OF OPERATING AND ADMINISTRATIVE EXPENSES
FOR THE YEAR ENDED MARCH 31, 2008

OPERATING EXPENSES

Contracted services	\$ 42,249
Depreciation	409,475
Operator salary and wages	104,510
Retirement	1,325
Insurance - health	5,118
Supplies	61,862
Repairs and maintenance	22,569
Utilities	110,257
Telephone	5,840
Billing charges	324
Payroll taxes	<u>16,553</u>
Total operating expenses	<u>780,082</u>

ADMINISTRATIVE EXPENSES

Bank charges	100
Insurance - general	41,970
Office expenses	4,467
Miscellaneous	10,254
Printing and postage	1,607
Authority per-diem fees	4,550
Payroll services fees	2,625
Accounting and audit fees	7,610
Legal fees	14,630
Permits	9,325
Miss-Dig and inspection fees	1,623
Salaries and wages	68,214
Retirement	5,516
Health insurance	6,811
Payroll taxes	6,632
Education	248
Interest	10,338
Maintenance	7,146
Engineering	16,502
Utilities	3,435
Telephone	1,655
Billing	2,988
Mileage	<u>1,361</u>
Total administrative expenses	<u>229,607</u>
Total operating and administrative expenses	<u><u>\$ 1,009,689</u></u>

The accompanying notes are an integral part of these financial statements

MULTI-LAKE SEWER AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2008

CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Receipts from customers	\$ 779,289	
Payments to vendors	(453,952)	
Payments to employees	<u>(163,285)</u>	
Net cash from (used in) operating activities		\$ 162,052
CASH FLOWS FROM (USED-IN) CAPITAL AND RELATED FINANCING ACTIVITIES		
Transfer to member townships	(80,073)	
Acquisition and construction of capital assets	(1,346,798)	
Tap in fees received	2,530	
Bond payable	1,636,859	
Grant reserve	98,636	
Reimbursement from county	<u>10,338</u>	
Net cash from (used in) capital and related financing activities		321,492
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	69,635	
Rental income	5,730	
Other income	<u>10,936</u>	
Net cash from investing activities		<u>86,301</u>
Net increase in cash and cash equivalents		569,845
CASH AND CASH EQUIVALENTS AT APRIL 1, 2007		<u>1,302,578</u>
CASH AND CASH EQUIVALENTS AT MARCH 31, 2008		<u><u>\$ 1,872,423</u></u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED (USED IN) OPERATING ACTIVITIES		
Operating (loss)		\$ (179,964)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation expense		409,475
Changes in assets and liabilities		
Receivables, net		(50,436)
Prepaid expenses		821
Accounts and other payables		<u>(17,844)</u>
Net cash provided by operating activities		<u><u>\$ 162,052</u></u>

The accompanying notes are an integral part of these financial statements

NOTES
TO
FINANCIAL
STATEMENTS

MULTI-LAKE SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

NOTE 1 - DESCRIPTION OF THE REPORTING ENTITY

The Multi-Lake Sewer Authority was incorporated on October 4, 1994, under Act No. 233, Public Acts of Michigan, 1955 as amended. The two incorporating municipal entities are Dexter and Lyndon Townships. The Townships of Putnam and Unadilla joined the Authority at a subsequent date.

The purpose of the Authority is to acquire, own, improve, enlarge, extend, operate, maintain, manage and administer sewage disposal systems, water supply systems, or both.

The Authority Board is composed of four voting representatives from Dexter Township, two voting representatives from Lyndon Township, one voting member from Unadilla Township, and one voting member from Putnam Township. Each representative serves a term of four years. The four Townships also appoint an alternate representative or representatives who attend meetings in the absence of the representative appointed by the alternate's respective Township.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The Authority is considered an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The board has elected also to follow private sector standards issued after November 30, 1989 for its business-type activities.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

- B. BASIS OF ACCOUNTING** - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

- C. MANAGEMENT'S ESTIMATES** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues during the reporting period. Actual results could differ from those estimates.

MULTI-LAKE SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The investment policy adopted by the Authority is in accordance with Act 196 PA 1997. The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	<u>1,772,423</u>	<u>1,797,829</u>
Total deposits	<u>\$ 1,872,423</u>	<u>\$ 1,897,829</u>

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

A summary of changes in fixed assets and depreciation is as follows:

	<u>Balance 4/1/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/2008</u>
Sewer system	\$ 19,414,737	\$	\$	\$ 19,414,737
Equipment	127,408			127,408
Land	123,000			123,000
Land improvements	<u>88,053</u>			<u>88,053</u>
Total cost	19,753,198			19,753,198
Less accumulated depreciation	<u>2,904,712</u>	<u>409,475</u>		<u>3,314,187</u>
Net fixed assets	<u>\$ 16,848,486</u>	<u>\$ (409,475)</u>	<u>\$</u>	16,439,011
Construction in progress	<u>\$ 332,323</u>	<u>\$ 1,346,798</u>	<u>\$</u>	1,679,121
Related debt				<u>(1,636,859)</u>
Investment in capital assets net of related debt				<u>\$ 16,481,273</u>

MULTI-LAKE SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation for the sewer system, equipment, improvements and software paid by operating income is charged as an expense against their operations.

Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Sewer System	50 years
Equipment, Furniture and Software	5 - 10 years

Capital assets are defined as assets with an initial, individual cost of more than \$3,000 and an estimated useful life greater than one year. Land is considered a capital asset regardless of initial cost. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

NOTE 5 - STATEMENT OF CASH FLOWS

Pursuant to Governmental Accounting Standards Board (GASB) statement number 9, a statement of cash flows is presented. The purpose of the statement of cash flows is to explain the change in cash and cash equivalents during the year.

Cash equivalents are defined as short-term, highly liquid investments with original maturities of three months or less. The direct method was utilized to present cash flows from operations. The following is a summary of beginning and ending cash and cash equivalents:

	Beginning Balance 4/1/2007	Ending Balance 3/31/2008
Current Assets		
Cash and cash equivalents	\$ 272,628	\$ 343,894
Restricted Assets		
Cash and cash equivalents	1,029,950	1,528,529
Total	<u>\$ 1,302,578</u>	<u>\$ 1,872,423</u>

MULTI-LAKE SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

NOTE 6 - LEASE AGREEMENTS

The Authority has one lease agreement with Dexter Fire Department. The lease agreement calls for monthly rent of \$400 for Dexter Fire Departments and their pro-rata share of all heat, water, gas, oil and other utilities. The lease agreement for the Dexter Fire Department is for a period of two years.

NOTE 7 - SEWER BILLINGS

The system currently has 1,386 users. Sewer users, with the exception of those in Gregory, are billed \$153.78 per quarter for service.

The quarterly charges are composed of the following:

Operation and maintenance	\$ 102.72
Reserve for debt service	33.00
Reserve for capital improvement/replacement	18.06
Total	<u>\$ 153.78</u>

Users in Gregory are billed quarterly as follows:

Operation and maintenance	\$ 102.72
Reserve for equipment replacement - Gregory	6.00
Reserve for capital improvement/replacement	22.74
Total	<u>\$ 131.46</u>

NOTE 8 - SYSTEM EXPANSION - PROJECT UNCERTAINTIES

The County entered into a lease agreement dated October 1, 1994, with the Townships of Dexter and Lyndon, located in Washtenaw County (the "Townships"). The lease agreement totaled \$8,900,000, which represented the amount of bonds sold by the County to finance the Multi-Lake Sanitary Sewer System Project (the "System"). The Townships pay semi-annually to the County amounts sufficient to cover the debt service requirements, including agent fees and other related costs.

The Multi-Lake Sewer Authority (the "Authority"), through a sublease with the Townships (who lease the project for the county), is required to operate, maintain, repair, insure and manage the system. Ownership of the system will be transferred to the Authority at no cost after the bonds have been paid in full.

The original lease agreement entered into between the County, the Authority and the Townships for the construction of the system and financing thereof indicated that Dexter Township would levy special assessments totaling approximately \$7.6 million. However, upon preparations and confirmation of its special assessments roll, Dexter Township actually levied approximately \$5.3 million. While a variety of factors appear to have contributed to this difference, there is concern by all parties to the contract as to Dexter Township's ability to satisfy its future lease payment obligations.

Presently, management of the Washtenaw County Department of Public Works believes that remedies that are available to the County in the event Dexter Township is unable to satisfy its lease obligations are sufficient to provide the necessary funding to meet the County's debt service requirements for the bonds issued to finance this project. Accordingly, no fund liability has been recorded by the County for any contingencies relative to this matter.

The Authority and County currently have contracted with new customers outside the sewer service area to provide service.

MULTI-LAKE SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

NOTE 9 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the township. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE 10 - ACCOUNTS RECEIVABLE

The Authority's billing periods are as follows:

April	through	June
July	through	September
October	through	December
January	through	March

Thus, accounts receivable includes both billed receivables through December 2007 and an estimate of the January through March 2008 billings. The following is a schedule of the Authority's accounts receivable:

Each year accounts receivable over 90 days are placed on the tax roll of the applicable township.

<u>Estimated Unbilled</u>	<u>Current</u>	<u>Over 30 days</u>	<u>Over 90 days</u>	<u>Total</u>
<u>\$ 213,734</u>	<u>\$ -</u>	<u>\$ 133,287</u>	<u>\$ 17,794</u>	<u>\$ 364,815</u>

NOTE 11 - INVENTORIES

Inventories of the sewer fund are valued at the lower cost or market. Cost is determined on the first in, first out basis. A physical inventory was taken at March 31, 2008. The authority's only inventory at March 31, 2008 was 1 grinder pump.

NOTE 12 - CASH COUNTY CONSTRUCTION IN PROGRESS

Washtenaw County is over seeing the construction of Phase III upgrades at the Waste Water Treatment Plant.

The cash consist of:

Cash at county	\$ 165,168
Grant revenue	98,636
Investment income	21,324
Construction in progress	(1,459,186)
Retainage	123,545
Debt revenue	10,338
Interest expense	(11,157)
Bonds proceeds	<u>1,636,859</u>
Total cash at county	<u>\$ 585,527</u>

MULTI-LAKE SEWER AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2008

NOTE 13 - LONG-TERM DEBT

The changes in governmental fund long-term debt are as follows:

	<u>Balance 4/1/2007</u>	<u>Additions</u>	<u>Payments & Deductions</u>	<u>Balance 3/31/2008</u>
Waste Water Treatment Plant Upgrade III				
State revolving fund	<u>\$</u>	<u>\$ 1,636,859</u>	<u>\$</u>	<u>\$ 1,636,859</u>

NOTE 14 - CONTINGENT LIABILITY

The State of Michigan Department of Natural Resources has made a claim for approximately \$53,000.

SUPPLEMENTARY
INFORMATION

MULTI-LAKE SEWER AUTHORITY
SCHEDULE OF OPERATIONS - BUDGET AND ACTUAL
FOR THE YEAR ENDED MARCH 31 2008

	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES			
Billings	\$	\$ 828,994	\$
Interest		69,635	
Grinder pump sales		3,260	
Miscellaneous		10,936	
Grant revenue		98,636	
Reimbursement form Washtenaw County		10,338	
Rental income		5,730	
	<u>\$ 860,619</u>	<u>\$ 1,027,529</u>	<u>\$ 166,910</u>
 OPERATING AND ADMINISTRATIVE EXPENSES	 <u>\$ 860,619</u>	 <u>\$ 1,009,689</u>	 <u>\$ (149,070)</u>

This schedule is prepared on a budgetary basis for the operating accounts of the enterprise fund and as such does not present the results of operations on the basis of generally accepted accounting principles but is presented for supplemental information.



PFEFFER ■ HANNIFORD ■ PALKA
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June 3, 2008

Authority Board
Multi-Lake Sewer Authority
12088 N. Territorial Road
Dexter, Michigan 48130

Honorable Authority Board:

During our audit of Multi-Lake Sewer Authority we came across the following matter that we would like to discuss with you as part of our audit presentation for the year ending March 31, 2008.

The matter which we would like to discuss with you is as follows:

There is a new auditing standard (SAS #112) which we are required to follow as your auditing firm. This new standard relates to more formal communications by us to you regarding significant deficiencies in your internal controls and accounting procedures.

There are certain issues (deficiencies) which were previously considered general comments but under the new standard are now considered significant deficiencies.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's or detected by the entity's internal control.

We consider the following to be a material weakness of the Authority.

- Journal entries were required during the audit to ensure the financial statement presentation was in conformity with generally accepted accounting principles. It should be noted that these journal entries were related to the full-accrual presentation of the government-wide statements (converting fund financial statements to full accrual statements).
- There is a lack of segregation of duties.

The following are other comments relating to the Authority's accounting and record keeping procedures:

- Invoices were paid from statements only, no invoices or signed purchase agreement was attached to check stubs.
- No one is approving Elizabeth Brushhaber's reimbursement checks.

Conclusion

Thank you for your assistance and hospitality toward our firm while conducting the audit of the Multi-Lake Sewer Authority.

If you should have any questions, comments or concerns please do not hesitate to call us.

This report is intended solely for the information and use of the Board of Trustees and management of Multi-Lake Sewer Authority and is not intended to be and should not be used by anyone other than the specified parties.

Pfeffer, Hanniford & Palka, P.C.

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Certified Public Accountants